

James B. Lee, Chairman
Kevin S. Carter, Director

MINUTES OF THE MEETING OF THE
SCHOOL & INSTITUTIONAL TRUST LANDS ADMINISTRATION
BOARD OF TRUSTEES

DATE: JUNE 29, 2006

PLACE: ROOSEVELT, UTAH

ATTENDING

BOARD

James B. Lee
Michael Morris *
Vernal Mortensen
Gayle McKeachnie
John Ferry
John Scales

STAFF

Kevin S. Carter
Kim Christy
Dave Hebertson
Ric McBrier
LaVonne Garrison
Kurt Higgins
Kay Burton
Tom Mitchell
Rodger Mitchell
Lynda Belnap

* Mr. Morris attended by telephone connection.

OTHERS IN ATTENDANCE

Michael Brown
Margaret Bird, State Office of Education
Kim Rodela, Governor's Office of Planning & Budget
Paula Plant, State Office of Education
Dixie Allen, State Board of Education
Laurel Brown, State Board of Education
Anora Mortensen
David Bailey, Utah Farm Bureau
Laura Kamala, Grand Canyon Trust
Allan Smith, Rancher
Dale Grims
L. R. Young, Cattle Association

I N D E X

<u>ITEM</u>	<u>PAGE NO.</u>
1. Approval of Minutes	3
2. Confirmation of Upcoming Meeting Dates	2
3. Consideration/Approval of FY 2007 Incentive Objectives	4
4. Other Business Arrangement - Ouray National Wildlife/Stonegate Oil/Gas	12
5. Other Business Arrangement - Grassy Trails Field/Pride Ventures Oil/Gas	15
6. Other Business Arrangement - Tidewater Oil and Gas	17
7. Initial Consideration of Request For Agency Action - SULA 1204 - Peck Rocks	20
8. Chairman's Report	
a. Election of Board Officers	21
b. Beneficiary Report	21
c. Other Issues	22
9. Director's Report	
a. Director's Update on Issues	
I. Recreation Land Exchange Update	22
II. Update on Little Hole	23
III. Wallsburg Property	24
IV. Staff Bonus Program	24
b. Surface Group Report	
I. Report on Objective 2-D - - Phil Pico Access	25
II. Status Report on Proposed Negotiated Sale in Summit County	26
c. Block Planning Report	
I. Discussion on Tabby Mountain	27
d. Development Group Report	
I. Investment in Coral Canyon Office Building #2	32
II. Update on South Block Southern Corridor Capital Issues	34
III. Update on Gateway Industrial	37
IV. Update on Cross Hollow Project	38
10. Consent Calendar	
a. Hidden Valley Coal Other Business Arrangement	39
b. Other Business Arrangement - Enduring Resources	40
c. Bloomington Irrigation Water Tank Site Sale	40
d. Amendment to SULA 882 - Commercial - Carbon County	41
e. Amendment to SULA 1272 - Residential - Wayne County	42
11. Presentation to Mr. Vernal Mortensen	43

Chairman Lee welcomed Board members, Staff, and guests to the meeting.

1. Approval of Minutes

On Page 11 of the May 18, 2006, minutes, second paragraph of #d, Mr. Lee noted that the Sub-committee had only met twice and not “several times”. On Page 26, it was asked that the following be added, as requested in this meeting by the Board, to help clarify the motion regarding the Cross Hollow issue:

“The Staff reported that the cash offer presented by the Graff Group exceeds the revenue anticipated from the previously reported options, with very little risk.. The Staff recommends that we enter into the cash sale option for \$33,650,000, after giving the other parties one additional chance to make a cash offer.”

With these amendments, the Board approved the Board minutes of May 18, 2006.

Mortensen / Ferry. Motion approved.

“I move we approve the minutes as amended.”

Roll Call:

Mr. Mortensen - - yes	Mr. Ferry - - yes
Mr. Scales - - yes	Mr. Morris - - y es
Mr. Lee - - yes	Mr. McKeachnie - - absent at vote

2. Confirmation of Upcoming Meeting Dates

The Board, without motion, confirmed the following meeting dates. It should be noted the August date is a change from August 10, as well as a change in the place.

July - - No meeting
August 17 - - Heber City
September 14, 15 - - St. George
October 12 - - Salt Lake City

3. Consideration/Approval of FY 2007 Incentive Objectives

Director Carter gave the Board a copy of the most recent draft of the proposed FY 2007 Incentive Objectives as follows:

FY 2007 Incentive Objectives

1. SHORT-TERM GOAL: Worth _____ % of Total Bonus: _____

A. Revenue Component: Achieve \$ _____ in net revenue after expenses, not including capital expenditures.

Worth _____ % of Short-Term Goal Bonus: \$ _____

- i. Measurement: As reported to the Board by the Trust Lands' Staff, with the understanding that partial incentive can be achieved as follows:

Revenue Achieved

Bonus Received

33 percent

66 percent

100 percent

B. Production Component: Increase production/income in the following specific programs/activities:

Worth _____ % of Short-Term Goal Bonus: \$ _____

- i. Planning and Development Group (PDG) Metric

Alternative One: Measure three (or five)-year revenue/expense/capital rolling averages against employee base.

Compare FY 2007 to FY 2006 figures for 3-year averages (current year, previous year before that) of PDG Revenue (excluding Tortoise Reserve revenues) divided by number of PDG employees (current year); or

PDG expenditures (Capital plus operating expenses) divided by number of PDG employees (current year); or

PDG Revenue (excluding tortoise Reserve revenues) Less PDG Expenditures divided by number of PDG employees (current year).

Alternative Two: Simply focus on year-to-year, three-year (or five-year) revenue rolling averages - - Compare FY 2007 to FY 2006 figures for:

3. Consideration/Approval of FY 2007 Incentive Objectives (cont'd)

PDG Revenue (excluding Tortoise Reserve revenues); or
PDG Expenditures (capital plus operating expenses); or
PDG Revenue (excluding Tortoise Reserve revenues) Less PDG Expenditures

Alternative Three: Focus on year-to-year growth in recurring revenue. The group has struggled to grow the recurring revenue number over the last few years. In the next five years, significant opportunities exist for the agency to push ground leasing and vertical investment opportunities on land being privatized. Targeting this business category for incentive dollars would serve to keep focus on this difficult-to-achieve business goal. We could develop a matrix to drive growth in the percent of recurring revenue to total revenue or growth in absolute terms.

Worth _____ % of Production Component Bonus: \$ _____

ii. Surface Group Metric

a. SULA Program: Through seeking new agreements, adjusting rental on existing agreements, and other practical means, increase program revenues on the following surface programs by the specified percentages:

- A. Telecommunications Leasing Program _____ %
- B. Industrial Leasing Program _____ %
- C. Commercial Leasing Program _____ %

b. Sales Program: Through marketing and other actions, increase sale returns by _____ % over appraised value.

c. Forestry Program: Increase three-year average forestry program revenue by _____ %.

Worth _____ % of Production Component Bonus: \$ _____

iii. Hard Rock/Coal Group Metric

a. Sand and Gravel Program: Increase three-year average revenue by _____ %.

Worth _____ % of Production Component Bonus: \$ _____

3. Consideration/Approval of FY 2007 Incentive Objectives (cont'd)

2. **LONG-TERM GOAL:** **Worth:** _____ **% of the Total Bonus: \$** _____

A. SULA Program

Many of the surface program rules have been in effect for over a decade; indeed, most even pre-date the creation of the TLA in 1994. An evaluation was scheduled for FY 2006. This earlier effort was not completed for several reasons. However, one component of the assignment, the development of a Board policy regarding Special Use Lease Rental Reviews, was accomplished. This new policy clarifies the application of CPI vs. formal appraisals in conducting reviews. Moreover, the new policy creates the option of shortening the terms of leases when appropriate. This new option has been applied to several leases already, creating more flexibility on how TLA properties can be leveraged for highest-and-best use when opportunities arise. In this fiscal year, the agency needs to complete the evaluation of the entire SULA rule set and propose necessary modifications.

In order to fully meet this extended objective for FY 2007, the following tasks will be accomplished:

- i. Conduct a comprehensive programmatic review of the SULA rules by December 31, 2006. Through consultation with private entities and other land-management entities, establish “best practices” for the following topics:
 - a. Competitive Solicitation
 - b. Lease Terms
 - c. Lease Fee Structures
 - d. Lease Assignments
 - e. Lease Rental Reviews.
- ii. Present results of consultation and a draft SULA leasing policy to the Board during its May 2007 Board Meeting.
- iii. Present revised SULA program rules for Board concurrence at the August 2007 Board Meeting.
- iv. **Worth:** _____ **% of the Long-term Goal: \$** _____

3. Consideration/Approval of FY 2007 Incentive Objectives (cont'd)

B. Sales Program

As with the SULA program, the traditional sales program has functioned under a rule set that was developed a number of years ago and which may not be attuned to current “best practices”. It is important that sales processes provide for disciplined evaluation and decision-making steps since sale decisions are typically ultimate disposition actions. In completion of this objective, the Administration will perform the following tasks:

- i. Determine “best practices” for the following procedures:
 - a. Competitive solicitation of applications
 - b. Determination of what parcels to sell
 - c. Determination of when to sell
 - d. Marketing
 - e. Closing costs, including reimbursement for appraisals and cultural resource investigations
 - f. Timing of closing
 - g. Sales format, including the following topics
 - A. Disclosure of sales price
 - B. Sale structure (sealed bid followed by oral bid)
 - C. Discretion of auctioneer to address unanticipated issues.
 - h. Contract terms, including the following topics:
 - A. Contract period
 - B. Interest rate
 - C. Default provisions
 - D. Partial conveyances
- ii. Present results of consultation and a draft sales policy to the Board not later than its May 2007 meeting.
- iii. Present revised sales program rule for Board concurrence at the August 2007 Board Meeting.
- iv. **Worth _____% of the Long-term Goal: \$_____**

C. Determine economic and practical feasibility of engaging in structural improvement opportunities.

Develop a long-term strategy/business plan to evaluate the appropriateness and to guide SITLA investment in vertical improvements (buildings).

3. Consideration/Approval of FY 2007 Incentive Objectives (cont'd)

- i. Obtain Board approval at the underlying conceptual basis and details to guide this plan. The strategy will address issues such as the following:
 - a. Should investments be limited to SITLA-owned property and/or is non-SITLA-owned property acceptable - - and in what circumstances?
 - b. Should our participation be “passive” or “active”; define what is “passive”.
 - c. Examine issues of investment timing and sources of capital.
 - d. What should be the use of, and structure for, construction and permanent loans to finance the vertical improvements?
 - e. Compare the advantages of vertical improvements versus non-subordinated ground-lease alternatives on SITLA-owned properties.
 - f. Examine agency and Board attitudes towards an ultimate exit strategy.
 - g. Evaluate and propose consistent financial analysis rules.
 - h. Review appropriate beneficiary issues; i.e., advisability of asset category, capital availability, etc.
 - i. Determine and address potential legal issues regarding investment category and sources and uses of capital (i.e., constitutional-statutory).
 - j. Address any accounting issues associated with investment category/strategy.
 - k. Conduct programmatic review of historic investment (i.e., Coral Canyon, Ft. Pierce, etc.).
 - l. Identify, catalogue, and evaluate known future opportunities (i.e., MP 13, future SILTA office, etc.).
- ii. Present preliminary discussion to Board in April 2007.
- iii. Present final plan to Board in August 2007.
- iv. **Worth _____ % of the Long-term Goal - \$_____.**

D. Complete negotiations to acquire other federal land for our inheld mineral estate in the Hill Creek Extension of the Uintah/Ouray Reservation.

The Agency has a unique opportunity within the Tribal lands known as the Hill Creek Extension in Uintah/Grand Counties to make an in-lieu selection with the BLM based on a 1956 federal statute specific to this parcel. This process to move the SITLA minerals from scattered sections in Grand County to blocks of land in

3. Consideration/Approval of FY 2007 Incentive Objectives (cont'd)

the Uintah County portion of the Extension commenced in 2006. Preliminary evaluations have been done in conjunction with the Ute Tribe and agreement has been reached on the parcels to be selected. The objective for FY 2007 would be to diligently pursue the selection with the BLM as follows:

- i. Prepare and file an application for in-lieu selection with the BLM state office.
- ii. The selection is initially proposed as an acre-for-acre, equal-value selection. Provide information to the BLM to support the equal-value concept. It is unknown whether or not a BLM appraisal will be necessary. If so, provide all necessary information requested to the BLM to support our position to accomplish a successful selection.
- iii. Work with the Ute Tribal members and other affected parties to support the application with the appropriate Washington, D.C., officials to accomplish the selection.
- iv. Work diligently to complete the selection before June 30, 2007. It is unknown at the present time if there will be opposition to this application by any outside parties.
- v. Negotiate a drilling commitment with an industry lessee on the selected lands in an OBA format as soon as the lands are transferred to SITLA ownership and bring it to the Board for approval.
- vi. **Worth _____ % of the Long-term goal: \$_____.**

E. Investigate the potential to participate in the oil and gas industry beyond the leasing stage.

Oil and gas is in high development in Utah. Many new companies are beginning to work in Utah, and the companies here are expanding their drilling and production activities. The Agency currently markets its oil and gas under the operator's sales contract. There may be an opportunity to increase the revenue coming to the Trust by marketing our commodity differently. After an examination of options, the Board could decide to continue to market as we do currently or move to a more aggressive strategy. The following are items that should be reviewed by the Board and guidance given the Agency:

- i. Provide a report to the Board by the April 2007 meeting on the feasibility of taking product in kind and marketing our gas and oil ourselves through a third party rather than through the operator's contract.

3. Consideration/Approval of FY 2007 Incentive Objectives (cont'd)

- ii. Provide a report to the Board at the April 2007 meeting that examines the advisability of participating in the drilling of oil and gas wells and whether or not that meets the Administration's fiduciary responsibility.
- iii. Review and report to the Board at the August 2007 meeting whether or not there are possibilities for the Agency to participate in pipelines being proposed within the state of Utah as a revenue-producing center.
- iv. Review and report to the Board at its August 2007 meeting on the status of the salt dome property. This is presently not on any existing pipeline infrastructure; but, due to storage filling up nationwide, there may presently be some interest, either to large commercial operations in the area or a more general storage operation, to use this property.
- v. **Worth _____ % of the Long-term goal: \$ _____**

F. Create long-term strategy to protect our ability to develop our Washington County properties in light of the recent water decisions in the county.

Since this objective was initially proposed, legal counsel has suggested That it may be too sensitive at this time.

G. Produce an updated Public Relations presentation/video to deliver our message to appropriate audiences.

When the Trust Lands Administration was created in 1994, it was partially as a result of a significant public relations campaign conducted by the beneficiaries to educate various constituencies on the role of the trust land grant. In March of 2001, a survey was conducted to determine public awareness and perception of the Administration's mission. Enough time has elapsed since the creation of the Administration and the survey that many of the individuals and groups have been replaced by entities that no longer know or understand the trust land message. It is critical to our ability to pursue opportunities that are in the best interest of the beneficiaries that we have public support for our mission. One of the best vehicles to deliver our message is a well-produced video. In order to meet this objective, the Administration will perform the following tasks:

- i. The Trust Lands Administration will produce a new agency video targeted at:
 - * Members of the state legislature
 - * Parents of schoolchildren K-12
 - * Teachers K-12

3. Consideration/Approval of FY 2007 Incentive Objectives (cont'd)

- ii. The video will be designed to build:
 - * Awareness of trust lands
 - * Understanding of Trust Lands' purpose
 - * Acceptance of the Trust Lands Administration mission
 - * Support for the Trust Lands Administration mission
- iii. The video will be ready for distribution by January 2007.
- iv. Compared with the baseline as established in the 2001 survey, familiarity with the School and Institutional Trust Lands Administration will increase by ____%.
- v. Additional comparison with 2001 survey.
- vi. **Worth ____% of the Long-term Goal: \$_____**

H. Develop a long-term exit strategy for our lands impacted by the various wilderness proposals.

Wilderness continues to be a significant and contentious issue in Utah. All of the various proposals that have been discussed or promoted by the Department of the Interior and public interest groups will impact significant acres of trust lands. Eventually, the Congress will deal with wilderness issues on public lands in Utah. It is important to have a clearly developed and articulated plan establishing a disposal/retention strategy for the trust lands that will be captured/impacted by the anticipated Congressional action. The strategy may include actions to be taken to influence wilderness designation decisions in specific areas. In order to complete this objective, the Administration will accomplish the following tasks:

- i. Identify and catalog all Trust assets that are potentially captured by any of the wilderness proposals currently before the public;
- ii. Identify those parcels that should be retained in Trust ownership to further the objectives and mission of the Administration;
- iii. Develop strategies to enhance the ability to develop the retained sections;
- iv. Prioritize lands available for disposal so that a reasoned and timely response can be made to any exchange/disposal opportunities;
- v. (Ask beneficiaries for suggestions on additional steps)
- vi. **Worth ____% of the Long-term Goal: \$_____**

Director Carter noted that the Revenue Goal has been broken into two parts: 1-A is the cash in the door and 1-B is increases in production of resources. He is suggestions that each of these be worth 35 percent of the short-term goal, for a total of 70 percent of the total goal.

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6/29/06

Page No. 11

3. Consideration/Approval of FY 2007 Incentive Objectives (cont'd)

Mr. Mortensen asked if Staff can visualize in reality how these will work? Director Carter stated he thinks we can do them, but we need to look at what we will be motivating people to do. It appears that these could incentivize us not to make expenditures, and he wonders if that is the best idea. We need to make wise decisions in this area, but also need to spend money to make wise investments. The Board agreed Alternative 3 would be the one to use in the Development Group for 1-B. There are no oil and gas issues in this area because we are not able to come up with anything that we are able to control. Mr. Scales asked if we calculate our reserves? It was noted we do not. A long-term goal might be to try to do this.

The Board will allow the Director to assign the breakout of the 35 percent to each one in B-1. In Section 2, Long-term Goals, Staff recommends that "F" not be addressed as an objective since it has very sensitive legal implications.

Ms. Bird stated the beneficiaries will review this draft and make any suggestions they might have. She applauded this draft as to what Staff is considering. She applauds the work of the Board sub-committee and the work of the Staff. She thinks every legislator should see these goals and understand how enormous these goals are.

Chairman Lee suggested that the Director fill in the percentages on Section 2. He asked Staff to come forward with a final product in August for approval by the Board. The Board felt this was a good product and just needs the incorporation of the comments into it.

4. Other Business Arrangement - Ouray National Wildlife/Stonegate Oil and Gas - -
Uintah County, Utah

Ms. Garrison reviewed this item with the Board. Trust Lands Administration owns several parcels of lands within the Ouray National Wildlife Refuge. Stonegate Resources leased Section 2, Township 8 South, Range 20 East, at a prior sale and now is interested in acquiring Section 36, Township 7 South, Range 10 East, in order to complete a block of lands for drilling purposes. The surface of Section 2 and 36 is owned by TLA and is covered by a special use lease to the Ouray National Wildlife Refuge (ONWR) that specifically allows drilling operations to occur. The Board had a copy of this special use lease. The management at ONWR has done several wildlife-enhancement projects within these sections and considers the lands to be very important to the continued success of the Refuge.

The ONWR is habitat for 237 species of birds (three T&E), 51 species of mammals, 21 species of reptiles, 60 species of amphibians, and 29 species of fish (four endangered). Given the wildlife issues within the Refuge, its manager is concerned about oil and gas development within

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6/29/06

Page No. 12

4. Other Business Arrangement - Ouray National Wildlife/Stonegate Oil and Gas - -
Uintah County, Utah (cont'd)

the boundaries under the special uses lease it has with TLA. With regard to Section 36, Henry Maddux, Superintendent for U.S. Fish and Wildlife Service (FWS) and Dan Alonso, Refuge Manager, have approached the agency and requested (a) not to lease the property at all, or, (2) if TLA leases it, select an operator who will work with the Refuge to protect their investment and respect and preserve the wildlife that exist there. Mr. Heggie Wilson, of Stonegate, has had preliminary discussions with Dan Alonso on both sections and believes that they can work out an acceptable secondary surface-use agreement to allow oil and gas operations to occur while preserving the integrity of the Refuge that will also be acceptable to TLA and not be in conflict with the existing surface agreement.

Stonegate is a small independent oil and gas company that works primarily in Utah and Wyoming. Heggie Wilson, a principal in Stonegate, has been involved in putting oil and gas prospects together and participating in prospects in Utah for over 20 years. In addition to the two sections covered by this OBA, Stonegate has leased or owns other minerals within its prospect area. Currently, the company controls 2160 acres within its immediate prospect area (620 TLA acres; 408 sovereign acres; 632 fee acres owned by Stonegate) and an additional 820 acres in the vicinity.

This lease will be issued in the name of Stonegate, but Mr. Wilson has informed the agency that Wasatch Energy will be a 50 percent partner with them. Wasatch has been in business for many years and, in fact, owned the Nine Mile Canyon acreage purchased by Bill Barrett Corporation. They currently also operate a gas-marketing company in North Salt Lake.

Proposal: Stonegate has offered to lease Section 36, which is a 640-acre tract (School) for \$200/acre, being a total of \$128,000, which is competitive with other lands surrounding the Refuge that have been leased within the past two years and exceeds the \$106/acre Stonegate paid for the Section 2 lease. The lease will have a five-year term and a 1/6th landowner's royalty. Issuance of the lease is contingent upon Stonegate presenting for TLA's approval a surface-use agreement executed by the ONWR that allows for oil and gas operations in Sections 2 and 36 and meets the goals of the Refuge. Such a mutually acceptable agreement will be presented to TLA for its concurrence within 120 days after the date the Board approves this OBA or no later than October 26, 2006. Should the parties not be able to reach an agreement on surface operations and TLA is unable to arbitrate an agreement, this OBA will be null and void. The lease will not be issued until TLA accepts the jointly executed surface agreement. The five-year term and bonus would commence and be payable the first of the month following the month in which TLA accepts the surface agreement.

lb

6/29/06

Page No. 13

4. Other Business Arrangement - Ouray National Wildlife/Stonegate Oil and Gas - -
Uintah County, Utah (cont'd)

Recommendation: The agency would like to work co-operatively with the Refuge to avoid as much surface disturbance as possible within the area they manage. Mr. Alonso at the Refuge is comfortable working with Mr. Wilson and has already had discussions with him about these lands. TLA needs to consider the work that has been done by the ONWR to create habitat; and, with the right parties involved and pre-determined expectations, both estates can co-exist. Stonegate has substantial leased acreage surrounding Section 36 and has indicated that they are prepared to drill the prospect imminently. Stonegate and Wasatch are both well-respected companies locally.

The Staff respectfully submits this proposal to the Board for approval and requests the Board approve Staff to proceed with negotiations with Stonegate on the leasing arrangement as set out. This arrangement is in the best interest of the Trust to develop its mineral estate and also meets the agency's stewardship responsibilities.

Ms. Bird asked about the statement regarding the lease being null and void if the parties are not able to reach an agreement on surface operations. She doesn't want the Wildlife Service to think that the surface issues take precedence over the mineral issues. Ms. Garrison stated they recognize this. They recognize that this is a good thing to have happen. Mr. Christy stated that in 2006 the SULA agreement was amended to state that we have a six-month cancellation clause so we could cancel it if we need to do so.

Ferry / Scales. Motion approved.

"I move we approve this."

Roll Call:

Mr. Mortensen - - yes

Mr. Scales - - yes

Mr. Lee - - yes

Mr. Ferry - - yes

Mr. Morris - - yes

Mr. McKeachnie - - yes

The Board would like a follow-up on this in six months.

lb

6/29/06

Page No. 14

5. Other Business Arrangement - - Grassy Trails Field/Pride Ventures Oil and Gas - -
Emery County, Utah

Ms. Garrison reviewed this issue with the Board. Grassy Trails was developed in the early 1980's by Seeley Oil. The only well in this discussion that ever produced was the State 2-43X in Section 2, Township 16 South, Range 12 East, SLM., which produced 6,400 bbls. Oil and 3,000 mcf gas. Seeley abandoned the following well bores without properly plugging them. These well bores remain a liability to TLA until they are properly abandoned:

State 36-13, NWSW of Section 36, Township 15 South, Range 12 East, SLM.
GT 36-2, NESW of Section 36, Township 15 South, Range 12 East, SLM.
State 2-43X, NESE of Section 2, Township 16 South, Range 12 East, SLM.
State 2-23, NESW of Section 2, Township 16 South, Range 12 East, SLM. (Water disposal well)

Trust Lands has been approached by a small oil and gas producer, Pride Ventures, LLC, to re-enter these shut-in wells and attempt to put them back on production. Pride is also working with our Surface Group to acquire a surface-use lease on the water disposal well site (State 2-23). All integrity tests have been completed on the disposal well; the company has received its permit from the Division of Oil, Gas, and Mining (DOGM); and it will be receiving the surface-use lease from TLA shortly. Pride will use this well to dispose of water from both TLA wells and wells from its surrounding federal leasehold and will pay the agency a disposal fee of five cents per barrel for non-lease water injected.

Pride needs next to acquire oil and gas leases on the unleased lands that contain the unplugged well bores. This will be the discussion of this OBA.

Information on Pride Ventures: Pride is a group of four investors from New Mexico who have had some production in their own names, but have now combined to create a small company to look for abandoned wells that may still have reserves and attempt to put them back on production. Three of the investors have production in Utah, which include operations at the White Mesa Unit in southeastern Utah close to the Aneth field. The fourth investor provides about 80 percent of the consultants for various oilfield operations such as pumpers, pipeline ROW specialists, oilfield construction, etc., used by ConocoPhillips in the Utah-New Mexico area. All of the investors are experienced oil and gas people with decades of experience in the oil patch and have the expertise to conduct the program they have proposed.

lb

6/29/06

Page No. 15

5. Other Business Arrangement - - Grassy Trails Field/Pride Ventures Oil and Gas - -
Emery County, Utah (Utah)

Proposal: Trust Lands has a total of 1116.16 acres of land in Section 36, Township 15 South, Range 12 East and Section 2, Township 16 South, Range 12 East, that contain the unplugged well bores discussed above. A separate lease would be issued on each section that would include rights to the existing well bores in that section. Pride would pay the trust a bonus of \$20,000.00 or \$17.92/acre to acquire these rights. The leases would be for a term of two years and bear a 1/6th royalty. Pride has already submitted a bond of \$15,000.00 to TLA as required by our rules, and it has been accepted by the agency. During the primary term of the lease, Pride will rework the existing well bores and attempt to re-establish production. There is a possibility that the State 2-43X well in Section 2, which already has a short horizontal leg, can be re-entered and the horizontal leg extended. If the leases are not producing at the end of two years, Pride has agreed to accept the plugging and reclamation responsibility and plug the wells immediately upon termination of the applicable lease in accordance with the DOGM's rules and regulations.

Agency Recommendation: The agency, as an ongoing project, looks at our shut-in and orphaned wells for disposition. DOGM has an orphan-well fund that is funded by the legislature every year to plug a few orphan wells. Bonds are called in, if available; or, if the bonds do not cover the entire plugging costs or there is no bond, DOGM picks up the difference out of its fund. Fee wells and state wells are covered by the plugging fund. There is a list of about 10 state wells which are old (1960-80 vintage) that are currently on the orphan-well list and subject to being plugged by DOGM as funds are available. Some of the wells still have bonds, and some do not. These particular Seeley wells do not appear to have a bond. Unplugged wells continue to be potential environmental and safety hazards.

It is a positive step and an opportunity for the agency if it can find small independent companies who can re-enter these old wells, get a little more production that may have been left behind by a prior operator, and get the wells plugged if they cannot be returned to production without resorting to DOGM's fund. This will free up some money out of the orphan-well fund to plug other wells that cannot be returned to production and assures the agency that our wells will be plugged sooner rather than later if they cannot produce.

5. Other Business Arrangement - - Grassy Trails Field/Pride Ventures Oil and Gas - - Emery County, Utah (cont'd)

It is a good investment on TLA's part to allow Pride some time to see if the wells are producible. If they are successful, it could also mean additional reserves from the existing well bore and possibly additional drilling on the lease.

The Staff recommends that it is in the best interest of the Trust to issue leases as set out above and respectfully requests the Board to approve this OBA.

Ferry / Scales. Motion approved.

"I move we approve this."

Roll Call:

Mr. Mortensen - - yes	Mr. Ferry - - yes
Mr. Scales - - yes	Mr. Morris - - absent at vote
Mr. Lee - - yes	Mr. McKeachnie - - yes

The Board would like a follow-up on this in six months.

6. Other Business Arrangement - - Tidewater Oil and Gas - Grand County

Tidewater Oil and Gas Company is a small company from Denver, Colorado, that has been putting together oil and gas plays in Utah for many years. Tidewater assigned operations on its projects to various other companies, so has not previously operated oil and gas wells in its name in Utah. The company has been active in the agency's competitive leasing program and currently holds record title to approximately 57 TLA leases. The company assigned working interest in some of its leaseshold to MSC Exploration in 2005, which drilled a well on our Crescent Junction Block along Highway 70 near Green River and another well about 40 miles north of Crescent Junction in the Book Cliffs area. MSC did not perform as Tidewater expected and left several plugging and reclamation items undone, as well as paperwork for the Division of Oil, Gas and Mining (DOGM). For example, in Section 2 MSC built a drilling pad, drilled a surface hole to 2000', and set surface casing at the North Thompson 2-1 in 2005, but did not

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6/29/06

Page No. 17

6. Other Business Arrangement - - Tidewater Oil and Gas - Grand County (cont'd)

bring in the drilling rig to drill the well to total depth. Subsequently, the lease terminated by its own terms without production being established; and the surface hole was left open and unplugged as it is today. Because of the bonding program between DOGM and TLA, MSC posted a bond sufficient to cover the costs of plugging and reclaiming this location; however, Tidewater has offered to clear up any problems MSC has caused and finish the projects MSC had started because Tidewater is still interested in doing business in the state of Utah and with TLA.

On March 28, 2006, Ms. Garrison wrote to Tidewater and set up some parameters that would have to be met before entering into an OBA with it to complete the North Thompson 2-1. A copy of that letter was given to the Board. The company has now completed all of its requirements except item 1 on the March 28th letter, which is undone because of a hold-up on the agency's part. TLA needed to forward the well-bore assignments to Tidewater, which has now been done, so plugging operations may begin at any time. The agency, therefore, submits the following proposal to the Board for its approval:

Proposal:

1. Tidewater must provide TLA with proof that the five orphan wells set out in the letter have been plugged. Plugging these wells is part of the consideration for Tidewater getting this OBA and must be completed prior to a lease being issued for Section 2.
2. TLA does not own the surface on Section 2. Tidewater must furnish TLA with a copy of a surface-use agreement signed by the surface owner that includes a plan for reclamation should the well not be productive.
3. Upon proof of plugging the five wells and receiving a copy of the surface-use agreement, the agency will prepare a lease on the Section 2 lands, being 388.56 acres, to Tidewater for a cash bonus of \$4000, one-year term, and a 1/6th landowner's royalty. The lease must be requested by Tidewater, in writing, within 90 days after the Board's approval or by September 26, 2006, or tidewater's ability to get a lease under this proposal will terminate and be null and void.

lb

6/29/06

6. Other Business Arrangement - - Tidewater Oil and Gas - Grand County (cont'd)

4. Tidewater will complete the well through the existing surface casing and drill to a depth of 7500' or to the base of the Honaker Trail Formation, whichever is the lesser depth. In order to keep the lease in force, the well must be drilled to this depth. If the company were to stop drilling at a shallower depth, the lease would terminate immediately; and the well bore would have to be plugged. If production cannot be established, Tidewater will also be responsible for the plugging and reclamation of this location.
5. TLA will also provide Tidewater with an assignment of well-bore rights to the existing surface hole begun by MSC in Section 2 last year at the same time it prepares and mails the lease.

Agency Recommendation: It is in the best interest of the Trust to work with Tidewater to clear up several lingering matters and grant the company time to complete the North Thompson well to see if commercial quantities of hydrocarbons can be produced at this location. This is a good opportunity to drill a new idea in an area that has yet to be explored very heavily. The agency respectfully requests the Board allow it to complete the negotiations with Tidewater as set out so the company may begin operations in this drilling season.

Scales / McKeachnie. Motion approved.

“I move we approve this.”

Roll Call:

Mr. Mortensen - - yes	Mr. Ferry - - yes
Mr. Scales - - yes	Mr. Morris - - absent at vote
Mr. Lee - - yes	Mr. McKeachnie - - yes

The Board would like a follow-up on this in six months.

Ms Bird stated she feels we need to congratulate Ms. Garrison for her great work. We make so much money from oil and gas, and she does it in such a great manner. She thanked Ms. Garrison on behalf of the beneficiaries. Chairman Lee stated the Board concurs in this comment.

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6/29/06

Page No. 19

7. Initial Consideration of Request For Agency Action and Appeal of Final Agency Action - - Special Use Lease No. 1204 - - Peck Rocks

As counsel for neither party was in attendance at this time, the Board denied this petition. Chairman Lee indicated the Board's counsel, Ms. Dawn Soper, had spoken with him earlier and recommended the Board deny this.

Ferry / Mortensen. Motion approved.

"I move we deny this request."

Roll Call:

Mr. Mortensen - - yes	Mr. Ferry - - yes
Mr. Scales - - yes	Mr. Morris - - absent at vote
Mr. Lee - - yes	Mr. McKeachnie - - yes

Later in the meeting, Mr. Tom Mitchell, counsel for the agency, and Mr. Joel Barrett, counsel for the petitioner, both arrived at the meeting. The Board reconsidered the consideration of this petition at that time.

Mr. Mitchell stated this is before the Board at this time to see if they want to hear it or not. If they want to hear it, it can be heard formally or informally. The rights of the party, if it is dismissed today, is the same as it being denied do novo. Mr. Mitchell recommends that it be discussed and heard in the District Court if appealed. Mr. Joel Barrett stated his client would like a hearing before the Board.

Chairman Lee noted that the Board's attorney recommended that it be denied.

Ferry / Mortensen. Motion approved.

"I move we deny this petition for scheduling of adjudicative proceeding."

Roll Call:

Mr. Mortensen - - yes	Mr. Ferry - - yes
Mr. Scales - - yes	Mr. Morris - - absent at vote
Mr. Lee - - yes	Mr. McKeachnie - - absent at vote

An Order will be prepared for the Board's signature.

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6/29/06

Page No. 20

8. Chairman's Report

a. Election of Board Officers

Chairman Lee noted this is the time of the year to elect Board officers.

Mortensen / Ferry. Unanimously approved.

“I nominate Michael Morris as Chairman for this next year.”

Roll Call:

Mr. Mortensen - - yes	Mr. Ferry - - yes
Mr. Scales - - yes	Mr. Morris - - yes
Mr. Lee - - yes	Mr. McKeachnie - - yes

Mortensen / Scales. Unanimously approved.

“I nominate John Ferry as Vice-Chairman of the Board.”

Roll Call:

Mr. Mortensen - - yes	Mr. Ferry - - yes
Mr. Scales - - yes	Mr. Morris - - yes
Mr. Lee - - yes	Mr. McKeachnie - - yes

Mr. Morris recognized Mr. Lee's great service and leadership as Board chairman in the last year.

b. Beneficiary Report

Ms. Paula Plant informed the Board members of some work the beneficiaries have been involved in with CLASS. She has just returned from the National PTA (NPTA) Conference where they passed a resolution regarding school trust lands. She gave the Board a copy of this resolution. She noted that the NPTA goes through an extensive process before submitting a Resolution to be approved. This was sent to all states for approval. NPTA requires that any Resolution be national in significance. This required some research to convince them that it was national in scope. Based on the research, they were able to convince the NPTA that it was national in scope. There were many questions during the approval process, so it was a great opportunity to do some education. It passed with a unanimous vote. The NPTA will now consider the results and see what their work needs to be to carry it out. The beneficiaries are starting to create some education among groups that have not known about trust lands.

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6/29/06

8. Chairman's Report (cont'd)

c. Other Issues

Mr. Michael Morris reported on the Board Compensation Sub-committee. We have received the proposals back on the RFP. The sub-committee will get copies. The sub-committee consists of Mr. Morris as Chairman, Gayle McKeachnie, John Scales, Kevin Carter, Margaret Bird, and Marlow Wilcox of the State Office of Education. These people will meet next week to review the proposals. After we choose a consultant, we will go over the scope of the work and get them started.

9. Director's Report

a. Director's Update on Issues

I. Recreation Land Exchange Update

Director Carter updated the Board on this land exchange and reported on his trip to Washington, D.C. They have spent time working through the outstanding issues as follows.

1. We have put forth a proposal that we not appraise the minerals on lands that are unleased and only appraise the surface. The Federal Government would convey the surface and minerals to us with an obligation for us to pay to them 50 percent of any royalties generated on the property and make the 50 percent payment to the State of Utah required under the Mineral Leasing Act.

2. What would be the status of the trust lands once they become federal lands? Would they be withdrawn so they couldn't be developed, etc? We don't have a "dog in that fight". This was an issue between majority staff and minority staff on the committee.

3. Sufficiency language - - the work that has been done to date is sufficient to satisfy the FLPMA test that the exchange is in the interest of the public. This issue has evolved in other arenas so that there is concern that the exchange will need to comply with NEPA. This is a congressionally directed land exchange, so there is really no choice as contemplated by NEPA. However, everyone did not see it this way. Staff worked on this hard to get it resolved before "markup" time for the bill. There was much negotiation on this a number of times, and it was agreed that it could be worked out. They are o.k. with it coming out of committee with the understanding that it will be fixed before it goes to the House floor. It seems that the minority has now surfaced another issue: that our mineral valuation proposal is like the President's land sale proposal. This identifies this exchange with the large federal land sale that is being proposed. This has complicated things a lot, and we are still working on resolving the issue.

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6/29/06

9. Director's Report (cont'd)

a. Director's Update on Issues (cont'd)

I. Recreation Land Exchange Update (cont'd)

This has raised suspicions with the environmentalists, who have thus far supported us. We are trying to fix this.

Laura Kamala, of the Grand Canyon Trust, stated Director Carter has explained the process correctly. They are still supporting the bill. Until she gets instructions from her board not to support it, they are in support and are trying to "put this fire out".

Director Carter stated we will just keep working on it. If it doesn't pass, it will be the next Congress before we can work on it further. If it doesn't pass, we will have to evaluate what we do with some of these lands.

II. Update on Little Hole

Director Carter noted that we have received many e-mails on this issue. The Chairman and Mr. McKeachnie have been involved in much of this correspondence. Last Fall we received an application to lease property at Little Hole on the Green River. We have rules in place to process lease applications. That process requires us to advertise, disclose that we have received an application, and state that we are soliciting competing applications. We did receive competing applications. We have been careful not to discuss who the parties are, but the applicants have been less careful about this. Therefore, the word is on the street that we had an application for a fishing lodge. There is a group of users on the Green River who find that use offensive. We have continued through the process, giving interested parties an opportunity to submit a proposal. We are evaluating those proposals. We are making a decision in the next couple of weeks. Our options are: (1) do a land exchange, (2) sell the property, (3) or enter into a lease agreement. This could end up before the Board after a decision is made, so we need to be careful how it is discussed here. We are going to assert, based on a previous Order of this Board, that there are very few who have standing in this issue. We will indicate in the Record of Decision (ROD) who we feel has appeal rights. We are close to making a decision. We are trying to address all the e-mails we have received. We have put a link on our website to answer most of the questions. Director Carter noted he has had an opportunity to meet with some of the sportsmen groups last week. The account in the paper was not correct. We are not receiving additional proposals, as that period ended some time ago. Mr. Ferry stated it appears that most of these are funneled through one particular paper. He wonders if a letter to the editor would help. Director Carter stated the experience we have had with that paper is that there is a person on staff of the paper that is churning this issue, and it would only give them more information to debate. Ms. Paula Plant stated a letter was sent by the PTA and another paper has published it.

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6/29/06

9. Director's Report (cont'd)

a. Director's Update on Issues (cont'd)

III. Wallsburg Property

Director Carter gave the Board an update on this issue. He showed the Board a map of some lands we own in this area. We did a transaction a number of years ago where we agreed to do a negotiated sale with the Division of Wildlife Resources (DWR). They ran out of money before they were able to acquire these properties. They would like to acquire all the lands in Section 33, Township 4 South, Range 5 East, and Sections 3, 4, and 10, Township 5 South, Range 5 East, as shown on the map. They really need the lands in Sections 33 and 4. We have had interest expressed by a private landowner to acquire lands in Section 3 and 10 and some land in Daniel's Canyon. Therefore, we would probably put those lands on the market.

Several months ago we entered into a MOU with DWR to do land exchanges. This MOU allows either party to get "out of balance". We owe them about \$300,000 as a result of the last land exchange. We feel we have an obligation to get back in balance as soon as possible. The complication on this piece is whether to exchange or go to a competitive process. We have rules in place that allow us to do a negotiated sale by the Director. The property has to be less than 320 acres, has to be worth less than \$100,000, and there has to be no expression of competition when we do our advertising. If any of those items fail, we can't do a negotiated sale. In this case, they all fail. Therefore, this is a decision that needs to come to the Board. They will have to be faced with making a decision of make a sale at fair-market value with the understanding that there is competition in the marketplace. We believe that our fiduciary duty is to get fair-market value. We, therefore, have to look at whether we feel we can get fair-market value or what the market will bear. This will be coming to the Board before too long. Staff is not prepared at this time to recommend which way we should go on it.

IV. Staff Bonus Program

Director Carter noted that one of the issues that came up in the audit last year was that we make a bonus payment to all Staff members if we meet the revenue goal. The auditors felt this was not equitable. We have made some fine tuning in the program. We will again offer this program, but it will be tiered. Everyone has a list of objectives. If an employees gets an "acceptable" rating, they will be eligible for a portion. In order to be eligible for the entire bonus, they have to get a "superior" rating. If they get an "unacceptable" rating, they don't get any of it. We are hoping this will address some of the issues that were raised in the audit. This will start FY 2007. The Board indicated they would be interested in looking at this new policy. Staff will send them a copy when it is finalized.

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6/29/06

9. Director's Report (cont'd)

b. Surface Group Report

I. Report on Objective 2-D - - Phil Pico Access

Mr. Christy reviewed this issue with the Board. This block has had some long-standing access issues. There is a county road that comes in through the east side of the block that has allowed us to access the eastern portions of the block. There has been a gate installed by the landowners. There is access on the west that is also gated. In the objective, Staff had some options to accomplish this objective:

- i. Either develop a reciprocal access agreement:
 - (1) Negotiate a reciprocal access agreement(s) with private landowners;
 - (2) Analyze and determine the private landowners across whom TLA needs to acquire access ;
 - (3) Obtain permission from relevant landowners to cross private land in order to accomplish timber sale layout and planning for TLA's first Phil Pico timber sale;
 - (4) Determine if there has been any trespass violations on the block;
 - (5) Conduct field work on the property boundaries and locations of fences and gates;
 - (6) Draft reciprocal easement(s) and present a convincing explanation of benefits of entering into a reciprocal agreement with relevant landowners; or
- ii. Instigate legal proceedings for obtaining access if private landowner consent cannot be reached.

Mr. Christy stated he is pleased to report that Staff was able to accomplish this task by option #i. We have come upon a problem with the MOU with the Division of Wildlife resources in that it states our trust lands will not be associated with CWMU's. We have discovered that DWR has incorporated these lands into a CWMU. They have apologized for this. Forty-eight percent of the land base that qualified this piece is trust lands.

There are some timber issues where Douglas fir needs to be harvested because of bark beetle. The surrounding landowners are facing the same situation. We have started doing some timber operations in some of the areas. Our goal is to do others in the next year.

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6/29/06

Page No. 25

9. Director's Report (cont'd)

b. Surface Group Report (cont'd)

I. Report on Objective 2-D - - Phil Pico Access (cont'd)

Mr. Christy stated that we have ultimately accomplished some large easements. There are seven landowners. We have established reciprocal agreements regarding access through some of the private landowners' property. On the eastern portion, we have been able to get a reciprocal agreement with the private landowners to get access to some of the scattered parcels that previously were not accessible. We have accomplished this objective in a win-win situation for access. DWR has gone to its Board and withdrawn this as a CWMU. We were not getting any benefit from this CWMU.

II. Status Report on Proposed Negotiated Sale in Summit County

It was noted that this would be a discussion of real estate values and should be done in closed session.

Scales / Mortensen. Unanimously approved.

"I move we go into closed session for the discussion of real estate values."

Roll Call:

Mr. Mortensen - - yes

Mr. Ferry - - yes

Mr. Scales - - yes

Mr. Morris - - absent at vote

Mr. Lee - - yes

Mr. McKeachnie - - yes

The Board went into closed at 10:37 a.m. Those in attendance were Board members, Kevin Carter, Michael Brown, Kurt Higgins, Tom Mitchell, Ric McBrier, Kim Christy, Margaret Bird, and Lynda Belnap. The Board, upon motion in closed session, returned to open session at 10:56 a.m.

Mr. Lee acknowledged at this time the presence of Laurel Brown and Dixie Allen, who are members of the State Board of Education.

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6/29/06

Page No. 26

9. Director's Report (cont'd)

c. Block Planning Report

I. Discussion of Tabby Mountain

Chairman Lee noted that the Board toured Tabby Mountain yesterday. The Board had previously asked Staff to do a plan on Tabby Mountain. A detailed plan was done so we could take a close look at the options of what to do. The plan was to give the Board information on these options. We have had feedback from a number of citizens previously, and we are still taking input. Our next meeting will be August 17 in Heber City. One of the Wasatch County commissioners asked if we could meet in Heber City so that some of the citizens could speak with the Board. He invited Board members to make comments when they felt like doing so. He opened the meeting for comments from the public at this time.

Allen Smith - - Mr. Smith gave a copy of some written comments to the Board members. This included the same ideas he had expressed last year at a hearing on this issue. He has attended two or three meetings where this issue was heard. He appreciates the Board looking at ideas of how to maximize the dollars for the schoolchildren of the State. As far as Tabby Mountain goes, it originally was part of the Ashley and Uinta Forests. Once it was blocked, it became Trust Lands' charge to manage it. He has property south of the DWR ranch south of the Tabby block. He has about 12-13,000 acres. The present lessee utilizing some trust lands was grazing his lands periodically. When there is feed, about 1,000 cows can graze his lands. He would oppose an outright sale of this land. He offers other ideas:

1. Continue grazing like it has been done. We have good permittees that know how to operate.
2. The timber industry should be looked at for its potential and renewable trees harvested.
3. He understands Trust Lands doesn't own the mineral rights. If there ever were any of the minerals mined, Trust Lands would get some income from surface damage.
4. Take advantage of the wildlife that utilize forage on the mountain. There are about 1700 elk in the summer time and about 12,000 deer in the general vicinity. If it happened to go a private sale, the hunters of the state would be very discouraged. If a single owner owned it and excluded the general public, the state would have to look at reducing the elk herd on the mountain.

lb

6/29/06

Page No. 27

9. Director's Report (cont'd)

c. Block Planning Report (cont'd)

I. Discussion of Tabby Mountain (cont'd)

Mr. Allen stated he would prefer to see the land as it is, keep the grazing, utilize the timber, and take advantage of the wildlife resources. He understands DWR is paying Trust Lands \$230,000+ for that land. He thinks we should look at a CWMU or some other wildlife program. He thinks this group and the Wildlife Board could get together and work out something so that we don't have to sell it. Mr. Allen noted that, with the 12,000 acres they have, they are considering putting much of it into a conservation easement. They intend to leave about 9500 acres for wildlife and grazing and subdivide the remainder. His family is going to make less money on a conservation easement, but it will protect the integrity of the land. Possibly, some of the Tabby Mountain land could be subdivided in a cluster development and leave the rest of it undeveloped. He expressed his appreciation to the Board for being here.

Mr. Mortensen thanked Mr. Smith for his comments and for his honesty in presenting them. Mr. Smith noted he is on the Wildlife Board and has one year left.

Lanny Young, President of Red Creek Cattle Association - - He stated he thinks this property is unmatched throughout the state. It is very unique. He would like to see the grazing continue and, as an association, is willing to work with the Board and Staff to do the things that need done and to improve the range. They have taken it upon themselves to go the NRCS to improve the range, etc. Much of this expense has been out of their pocket. They are willing to do this. It's a big task, but it's a good one. He would like to stress that he feels we need to keep the integrity of the property as a whole. We need to all work together and think what we can do to increase the income off the property. If we are pulling in different directions, it won't happen.

Chairman Lee thanked Mr. Young for meeting with the Board on Tabby Mountain yesterday.

Laurel Brown, State Board of Education member - - She thanked the Board and Staff for inviting her on the tour yesterday and to the meeting today. It was a valuable field trip. She appreciates all the different perspectives we learned about. She stated she represents the Utah Board of Education's position on this issue. She has been on the State Board for six years and doesn't recall a time when the State Board of Education has taken a position on a parcel. With the information they have had up until they took a position, they feel that this point in time is not

9. Director's Report (cont'd)

c. Block Planning Report (cont'd)

I. Discussion of Tabby Mountain (cont'd)

the time for this parcel to be sold. They don't want to be in the position of micro-managing Trust Lands Administration, but they feel this property is unique and is not replaceable; and it is going to be increasingly more valuable in the next few years. They feel this area can take off in terms of its value and ask Trust Lands to consider not selling it at this time. She wanted to make other comments. They would desire that the Board really look at all the different uses of this parcel and think of it in its high value and think of it in different portions of its uses and that we can continue the good partnerships in terms of the loggers and graziers on this land. The people that are on the land each day are the people that will take care of it. She really feels that preservation of this property can be made through appropriate upgrades and appropriate improvements. There have to be uses on it, but at some time it will have to be determined what the use is and is it preserving the property and its highest and best use or is the use damaging the property.

Ms. Brown explained to the Board a process in which she participated in the Salt Lake Valley near the Jordan River and the expansion of the river. A citizens' effort realized what they had and took action to preserve the property. The Jordan River parkway is a beautiful place. The point being that, maybe this property being so unique, it does need to have something done to it; and she encouraged the Board to look at all its options to ensuring the property is well used and not get into the hands of people who will not use it wisely.

Irene Hansen, Duchesne County Economic Development Office - - Ms. Hansen thanked the Board for meeting in Duchesne County. The county commission asked her to pass on to the Board what they had already said in a letter. This property is very unique and will only increase in value. They strongly believe it should be spared from a one-owner situation and watch for some unique opportunity. Duchesne County is one of the top growing counties for retirement-age people. In 10 years or so, Duchesne County will expand in very good ways and find some unique economic opportunities.

Chairman Lee asked Ms. Hansen how the county would feel if we were to sell the land to DWR? Ms. Hansen stated she hesitates to speak on behalf of the county, but thinks it would be in better hands and still be in public ownership. This is such a unique piece. She is quite enthused as to the contribution Duchesne and Uintah Counties are making to the Trust. They are proud of that contribution. In this case, they would like to see this land held in the public realm.

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6/29/06

Page No. 29

9. Director's Report (cont'd)

c. Block Planning Report (cont'd)

I. Discussion of Tabby Mountain (cont'd)

Ms. Margaret Bird, representing the State Office of Education, Utah State University, and the University of Utah - - On many issues in which we have a common interest, the University of Utah, Utah State University, and the State Office of Education collaborate and respond to things. Dale Huffaker had informed Ms. Bird that the vice-president of USU had been briefed on Tabby Mountain, and some of her comments today are from him. They recognize that this is a very unique place. They would like to understand that uniqueness. How many other places in one ownership that are 27,000+ acres and within one hour of a metropolitan area are there? She thinks it is important to understand the other places, where they are, and who owns them. The number of other parcels similar to this may be a number going down over time. This is something we should be tracking.

She does have some concerns in the economic analysis done on Tabby Mountain. Staff has been asked to use a 9.45 percent discount rate. When we look at this rate and consider sale vs. hold, this will be a factor to consider. The Treasurer's return rate is 5.9 percent. The 9.45 number may not be an appropriate number to use. The Investment Advisory Committee did meet with Jim Calahan a few weeks ago regarding the investment of the permanent fund over the next few years. One of the comments that stood out was that we should not expect the amount of returns over the next 10 years that we have gotten in the last 10 years. Since we don't know that we are doing better than the market, she cautions the Board that, when they contemplate a one-time sale, the NPV should be much lower than something that is done over time. Chairman Lee stated that, when an analysis is made, we also need to look at the use of the property; i.e., industrial, etc. The optimum time to sell may not be right now. Ms. Bird stated we need to understand that uniqueness and track that value over time. We might decide never to sell it. Because of the technology, people have more options of where they can locate and work in the workplace. This may also impact the value of the land. She stated she appreciated Allen Smith's comments. He is uniquely positioned as a member of the Wildlife Board, and maybe he can help us make some money on this from the wildlife aspects. She also wondered if the Board would give some thought that, about a month ago, the NRCS considered an application from the grazing permittee for \$200,000. Because their lease is not still in effect for enough years, they were turned down. Possibly, we could do something to help improve the hunting capacity of the land and increase the AUM's and wildlife, all of which would improve the money brought in.

9. Director's Report (cont'd)

c. Block Planning Report (cont'd)

I. Discussion of Tabby Mountain (cont'd)

She believes that there was one issue that came out of the open house last night. We know we need as an agency to provide certainty in the oil and gas industry. Last night Mr. Young asked if he should sell his heifers or keep some for next year? Because of the changes we have added in Staff, we have had many Staff look at Tabby Mountain many times and have created a climate of uncertainty. If the decision is to hold Tabby Mountain, she encouraged the Board to consider a long-term strategy of what we want to do and have some degree of certainty of what we want to do on the land.

Ms. Bird noted that USU also wants to comment that they really want the Trust to look at the unique aspects of the property and try to increase it fairly - - look at the property as a whole and also all the different components of the property. There are some things we can do to help us get better control of the property. Perhaps the community could help do something conservation-wise to show they appreciate the property. Ms. Bird thanked the Staff. Mr. Burton has worked long and hard on this. They appreciate all the Staff has done in providing them information.

Mr. Ferry stated that through NRCS there are ongoing programs all the time, and we could be an active player in helping our lessee in this. If we are on the quest to improve the bottom line for the schoolchildren, it is going to change some paradigms; and there are some political risks to us. We are going to be needing some allies and asking all these people to be there.

David Bailey, Utah Farm Bureau - - He is a field man for the Farm Bureau and works in Wasatch, Duchesne, and Uintah Counties. This has been on their agenda for discussion for several months. He hasn't seen a subject discussed as much as this. This is very important to them. The farmers and ranchers that he is associated with are very concerned with this issue. It is important to them and to their communities. He appreciates the Board's time. The Farm Bureau has not taken a position on what they would like the Trust to do.

Chairman Lee noted that the Board and Staff does not need to have a discussion on this today, as it will look at it further in August. Staff will come to the Board with results of the planning process. Chairman Lee stated the report doesn't address the issue of the unique status of this property. From his perspective, he thinks it would be helpful. He thinks Staff has completed its objective, but he would be hard-pressed to vote on it without knowing about the uniqueness of it. This does not need to be in the report to meet the objective. Mr. Ferry felt this would be good information also.

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6/29/06

9. Director's Report (cont'd)

d. Development Group Report

I. Investment in Coral Canyon Office Building #2

Mr. McBrier reviewed this item with the Board. Staff is recommending that the Trust, on behalf of Miners Hospital, proceed to acquire a 50 percent interest in Coral Canyon Office Building Two, which is about to proceed under construction under the direction of SunCor, the proposed 50 percent partner. The building is designed as a single-story facility with 26,937 gross square feet and 23,524 rentable square feet. Total improvement cost, based on actual bids, is \$3,267,000. The land involved is 1.51 acres within the Coral Canyon town center. The Trust's interest in the land value is 35 percent, with SunCor's interest at 65 percent as established in the SunCor master agreement. SunCor has agreed to value the land at \$4/square foot for partnership purposes, resulting in a total project cost of \$3,531,876. While this land value is probably below market, it works to the Trust's interest in light of the Trust's participation in land value at 35 percent, but partnership participation at 50 percent.

The transaction is based on a conservative 61 percent debt/39 percent equity structure. SunCor will provide the construction loan and will then arrange the permanent loan as the building is finished and leased. Construction interest, at 2.75 percent over prime, has been capitalized for analysis purposes. In light of the 39 percent equity structure, the partners' capital contributions will be as follows:

	<u>Land Value at \$4</u>	<u>Cash Contribution</u>	<u>Total</u>
SunCor	\$172,148	\$ 518,341	\$ 690,489
Trust Lands	\$ 92,695	\$ 597,794	\$ 690,489
Total	\$264,844	\$1,116,135	\$1,380,978

The building is 30 percent pre-leased, with a targeted triple-net-rent of \$15/square foot. Based on our familiarity with the market, we believe this is reasonable. Rents are projected to increase at two percent per annum, beginning in the third year of operation.

Analysis: The project has been analyzed in light of a pro forma utilizing projected returns and absorption, combined with an assumed sale of the building in the 20th year of operation. This analysis has then been compared to the revenue that could be achieved if the land were sold with the proceeds invested with the additional capital investment at returns consistent with historic Treasurer performance (5.5 percent over the last 10 years).

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6/29/06

Page No. 32

9. Director's Report (cont'd)

d. Development Group Report (cont'd)

I. Investment in Coral Canyon Office Building #2 (cont'd)

An internal rate of return analysis on the investment and a NPV comparison have also been performed. The results, which are favorable, are set forth below:

Total Invested:	\$690,489 (land value and cash)
IRR on 20-year sale at .09 cap rate:	13.6 percent
NPV on 20-year sale at .09 cap rate, discounted at 9.45 percent =	\$ 972,656
NPV on 20-year sale at .09 cap rate, discounted at 7.5 percent =	\$1,234,652

Capital availability: It is proposed that the funds for this investment will come from the legislatively approved capital appropriation. Mr. John Andrews has indicated in a memo so Staff that this is an appropriate use of funds. We would propose to close this in FY 2006, utilizing uncommitted funds from the capital account.

Conclusion: this investment meets all the ingredients that we have sought in "recurring revenue" transactions: strong location (Coral Canyon), strong partner (SunCor), passive position, conservative debt structure, and minimum 50 percent interest and IRR returns in the low teens. The project has been structured and analyzed conservatively: nine percent cap rate on sale, two percent annual rent increase after three years, and 61 percent debt. Approval is requested to proceed with this investment with SunCor. Mr. McBrier showed the Board, through a power-point presentation, a visual depiction of what the building will look like.

Ferry / McKeachnie. Motion approved.

"I move we follow the Staff's recommendation."

Roll Call:

Mr. Mortensen - - yes	Mr. Ferry - - yes
Mr. Scales - - yes	Mr. Morris - - absent at vote
Mr. Lee - - yes	Mr. McKeachnie - - yes

The Board asked for a follow-up in six months on this item.

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6/29/06

Page No. 33

9. Director's Report (cont'd)

d. Development Group Report (cont'd)

II. Update on South Block Southern Corridor Capital Issues

Mr. McBrier discussed this with the Board through a power-point presentation as follows:

163.3 Net Acres - East Interchange Pads

As-is Value:	\$ Per Acre	Total
10-yr absorption	\$156,154	\$25,500,000
15-yr absorption	\$123,699	\$20,200,000

Hypothetical (Assumes Interchange, Southern Parkway completed to River Road today):

10-yr absorption	\$301,286	\$49,200,000
15-yr absorption	\$240,661	\$39,300,000

1,533 Net Acres - South Block

As-is Value:	\$ Per Acre	Total
10-yr absorption	\$47,032	\$72,100,000
15-yr absorption	\$36,334	\$55,700,000

Hypothetical (Assumes Interchange, Southern Parkway completed to River Road today):

10-yr absorption	\$77,626	\$119,000,000
15-yr absorption	\$60,861	\$ 93,300,000

1,696.30 Net Acres - Value of the Whole -South Block

10-yr absorption	\$57,537	\$97,600,000
15-yr absorption	\$44,744	\$75,900,000

Hypothetical (Assumes Interchange, Southern Parkway completed to River Road today):

10-yr absorption	\$99,157	\$168,200,000
15-yr absorption	\$78,170	\$132,600,000

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6/29/06

9. Director's Report (cont'd)

d. Development Group Report (cont'd)

II. Update on South Block Southern Corridor Capital Issues (cont'd)

Full South Block Value

Unimproved	\$165,100,000
Improved	\$232,240,000
Value Added	\$ 66,140,000

Proposed City/SITLA/UDOT Agreement
Affecting FY 2007-2009

1. Construction Projects Overview:

- a. New SPUI Interchange at MP 2
- b. New Southern Corridor - 4.5 miles to River Road
- c. New River Road to Southern Corridor - 2 miles
- d. Two 2-lane bridges at access number 1 location
- e. Right of way at interchange and for Southern Corridor - 140 acres+/-

2. Trust Commitments to Project

- a. Dedicate right of way - - valued at \$4 million +/-
- b. Build River Road - - cost of \$4 million+/-
- c. General capital contribution \$4 million

3. Trust Receives:

- a. Final zoning on 300+/- acres of land at interchange
- b. Approval of relocated River Road
- c. Four access points onto Southern Corridor
- d. Hillside review approval of hill removal
- e. City support for new materials sites within South Block
- f. Project to include \$4 million bridges at Access #1
- g. \$6-8 million impact fee credit against St. George transportation impact fees

Mr. McBrier noted that the land into Arizona that is contiguous to this is trust lands for Arizona. Water is a big issue on this block. Arizona is focused on this land. UDOT is ready, and the City is pushing to do this and build the interchange at MP 2.

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6/29/06

9. Director's Report (cont'd)

d. Development Group Report (cont'd)

II. Update on South Block Southern Corridor Capital Issues (cont'd)

This will be a SPUI (single-point urban interface) interchange. We have been interested in getting it designed correctly and to make sure we have access to the roads that will give access to our trust lands (four acres). This is a conceptual plan. We had an appraisal done of the lands to arrive at the values shown above. Mr. McBrier stated he has been pushed to commit as to what Trust Lands will do in the project. He had told them we are not able to commit anything without Board approval. We are about to engage in discussion of what we will recommend to the Board. He and the Director met with Senator Hickman, the mayor, and UDOT. We have told them that we will recommend to the Board what has been previously shown above. There are some protected plants on some of these lands. UDOT has to do something with these before developing the interchange. We are making some lands available to be purchased for this. UDOT and The Nature Conservancy are going to purchase lands for this purpose. The city and Senator Hickman have received a detailed proposal on this, and we have not received any feedback from them yet.

Mr. McKeachnie stated he was with some people in St. George this week, and they stated the market is leveling off and that land prices are not expected to increase at the current level. As we plan ahead, we may need to consider this. Mr. McBrier stated we have people scheduled to discuss the St. George market with the Board in August or September. He thinks the future of the St. George area is steady growth. Someone told him the Phoenix market is overbuilt. There may be some fall out to St. George from that and also from Las Vegas. He thinks the St. George market will be o.k.

Mr. McBrier noted this will probably be a three-year program. When he gets feedback from the city and we have the final agreement with them, we will come back to the Board and ask for approval.

9. Director's Report (cont'd)

d. Development Group Report (cont'd)

III. Update on Gateway Industrial

Mr. Rodger Mitchell gave the Board an update on this issue. If everything goes well, we will be back to the Board for approval in August or September. He reviewed this with the Board through a power-point presentation as follows:

Transaction Efforts:

- * Auction: Spring 2005
 - * Did not reach minimum/appraisal (\$6.25/sq.ft.)
- * RFP Process: Spring 2006
 - * Requested proposals for
 - * 50-50 venture
 - * Cash purchase
 - * Received proposed for 50-50 venture
 - * Flex space
 - * Storage

Summary:

	<u>Flex Space</u>	<u>Storage</u>
Acres:	6.7	4.05
Land Value		
Appraisal	\$6/sq.ft.	\$6/sq.ft.
Proposal	\$4.50/sq.ft.	\$9.50/sq.ft.
SITLA Economics		
Sale- - end of year 20		
IRR	12%	17%
NPV (9.45%)	\$571,000	\$953,000

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6/29/06

Page No. 37

9. Director's Report (cont'd)

d. Development Group Report (cont'd)

III. Update on Gateway Industrial (cont'd)

Storage Concept:

- * Best economics
- * Need City approval
 - * Rezone
 - * Conditional Use
- * Part of parcel left for later development
- * Pursuing Storage proposal

Mr. Mitchell noted that these storage-concept values are measured only against the four acres. Therefore, we could do something else with the remaining two acres. The storage option does need to be rezoned. This is what we are going to pursue in the next few months.

Ms. Bird asked if part of the deal will be that it will look like the design of the building? Mr. Mitchell stated we will work with them on design; it may not be the same design as Coral Canyon, but will be congruent. Ms. Bird asked if we have a sense of market demand for what is needed? Mr. Mitchell stated we are confident with the demand for this. Ms. Bird asked if this would drive our own prices down? Mr. Mitchell stated this is well located for this type of project.

Mr. McBrier stated we wanted to show this to the Board because we want the Board to know more of what we are working on before we ask for approval.

IV. Update on Cross Hollow Project

Mr. Mitchell stated the \$1 million in earnest money on this project was put up, but we did have to extend the period for this to happen. We extended the period for a few days. We have met with the people who will buy this, the Graff Family. We need to engage the people who are putting in much of their own money, which is not the Graff Family. Hopefully, we can close this transaction in August. We did give the others who made proposals an opportunity to amend their proposals to a cash offer. The EsNet people were upset with the outcome because they had gone through a process, and the third-place people were allowed to amend their proposal. EsNet

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6/29/06

9. Director's Report (cont'd)

d. Development Group Report (cont'd)

IV. Update on Cross Hollow Project (cont'd)

was awarded about the dollars they spent on their proposal and the money they spent on engineering in the interim. They do understand, however, that no deal is final until the Board approves it. EsNet was also concerned about its reputation. Doing this type of work, going into the community, and indicating they are going to do this at Cross Hollow, etc., may do their reputation some harm. They may want to discuss this with the Board.

Mr. Mortensen asked why these people would be upset when they know the final decision has to come from the Board? Mr. Mitchell stated he thinks they felt they would probably have a deal. They could also miss a building season because they spent time and money on this project that they didn't get.

In review, Chairman Lee noted that Staff had brought forth a proposal; and the Board asked about a sale of the property. Staff indicated there was a group who had mentioned that. The Board asked for more information on this, and then it ended up being a sale. Mr. McBrier stated EsNet also referred to our reputation being damaged. That brings up other issues. We have a piece at Sienna Hills and need to decide what we want to do. He, therefore, wants to discuss this issue with the Board in the next six months or so and see what transactions like these will be like. Staff needs to start defining some processes and bring to the Board for consideration.

Chairman Lee stated he doesn't feel uncomfortable about what the Board did. When the Board has the last word, they might have a difference of opinion than the Staff.

10. Consent Calendar

Item 10-a was postponed. The Board had no concerns on any of the other items, so they are all approved.

a. Hidden Valley Coal Other Business Arrangement

This item was postponed until a later meeting.

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6/29/06

Page No. 39

10. Consent Calendar (cont'd)

b. Other Business Arrangement - - Enduring Resources - Uintah County

The lands subject to the OBA are as follows:

Township 11 South, Range 25 East, SLM.

Section 29: N2, containing 15.57088/320 acres, more or less

The Trust was willed this mineral interest about five years ago by Edith Coombs, who held a 4.86590038 percent interest in the 320-acre tract. That interest translates to 15.57088 net acres that the Trust has to lease. These minerals were leased to a different company, but the lease expired in January, 2006, by its own terms without any drilling.

Enduring resources, LLC, has now leased the rest of Section 29 and holds the surrounding acreage and has approached the Agency for a new lease on this tract. The leasing terms will be \$750/per net acre or \$11,678.16 for bonus consideration, 3/16th royalty, and a two-year lease term. The agency recommends accepting this offer and allowing Enduring to proceed with its drilling plans. They intend to stake eight wells on this 320-acre tract as soon as the lease issues.

This item is approved by the Board, since there were no comments on the Consent Calendar items.

c. Bloomington Irrigation Water Tank Site Sale

Background: The Bloomington Water Company (BWC) is a private water company which manages irrigation water in the southern part of St. George, Washington County. BWC has made a proposal to the Trust to purchase land for an irrigation water storage facility in the Price City Hills area - - south of Hidden Valley and north of the planned interchange at Milepost 2. Trust lands in the vicinity of the planned interchange at Milepost 2 are in the service area of the proposed storage facility, thus enhancing their value.

Proposal: BWC requires an approximate one-acre site together with easements for the water pipeline corridor and access road. The length of the pipeline easement and access road easement is 2,670 linear feet and 1,809 linear feet, respectively. In addition to the contribution of the land, BWC has requested the Trust contribute \$101,727 to the construction of a water pipeline aligned to service trust lands south of the storage site. The access road would be built on top of the water pipeline. If the Trust did not have interest in using BWC's irrigation water, the Trust would not contribute any additional funds; and BWC would choose the alternative pipeline corridor.

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6/29/06

10. Consent Calendar (cont'd)

c. Bloomington Irrigation Water Tank Site Sale (cont'd)

In return, BWC would issue the Trust 100 shares of Class A water stock. The stock does have an annual carrying cost. The current assessment for Class A shares is \$66. As BWC shares are tied to an individual residential lot, they cannot be sold separately; therefore, there is no market value for a Class A share. However, an estimate of the value assigned to each Class A share as it relates to its contribution to the market value of real estate is \$2,500 per lot.

Financial analysis: Trust lands in the South Block of Washington County have recently been valued at \$20,638/acre (RCS Appraisal, dated April 28, 2006). The net present value of the BWC proposal is \$38,512/acre based on a 9.45 percent discount rate.

Conclusion: The BWC proposal compensates the Trust well for the land needed to construct an irrigation water storage facility with associated pipelines. However, the more important value-add is the availability of irrigation water the proposed storage facility bring to the commercial properties in the vicinity of the planned Mile 2 Interchange.

This item is approved by the Board, since there were no comments on the Consent Calendar items.

Board Notification:

d. Amendment to SULA 882 - Commercial - - Carbon County

Pursuant to Rule R850-30-1000(2), the following is a formal notice that the Agency intends to amend SULA 882 by adding a provision allowing for the lease to be terminated by giving the lessee 90 days written notice.

SULA 882 is a commercial lease issued to the Helper Gun Club. The lease contains 40 acres, more or less, in Section 24, Township 13 South, Range 9 East, SLM (beneficiary is Schools). The purpose of the lease is for a trap shooting and small rifle range. The beginning date of the lease was May 1, 1991. The expiration date of the lease is April 30, 2011.

10. Consent Calendar (cont'd)

d. Amendment to SULA 882 - Commercial - - Carbon County (cont'd)

This lease was recently reviewed pursuant to Board policy and the provisions of the lease. In the course of the review, it was determined that the value of the subject property exceeded the value of the commercial use of the property. The lessee was given the option to either pay the fair-market value of the lease or amend the lease to include a termination clause. The lessee elected to add a termination clause to the lease. The termination clause will read as follows:

“Notwithstanding the expiration date as set in the Lease above, after April 1, 2006, the Lessor shall have the right to terminate SULA 882 at any time by giving the Lessee 90 days written notice.”

The Agency believes that this action is in the best interest of the Trust beneficiary.

This item is approved by the Board, since there were no comments on the Consent Calendar items.

e. Amendment to SULA 1272 - Residential - - Wayne County

Pursuant to Rule R850-30-1000(2), the following is a formal notice that the Agency intends to amend SULA 1272 by clarifying its intended use to include the general public. SULA 1272 is issued to the Utah Back Country Pilots Association. The lease is for the use and maintenance of a back-country airstrip known as Happy Canyon, which is located in a remote area of eastern Wayne County. The lessee pays annual rental for the lease and maintains the airstrip by keeping the dirt runway clear of debris and vegetation so their association and the public may use the airstrip.

The Administration concurs with the lessee's request to amend the lease in order to clarify that the lease area is open for public use, which was the original intent of the lease when it was first established in 2000. This will be accomplished by amending Paragraph 1 - Purpose of the Lease - to include this sentence: “The Subject Tract shall be open to the general public for the purposes described here, at not fee to the general public.”

The Agency believes that this action is in the best interest of the Trust beneficiary.

This item is approved by the Board, since there were no comments on the Consent Calendar items.

lb

6/29/06

Page No. 42

11. Presentation to Mr. Vernal Mortensen

Chairman Lee noted that Mr. Mortensen is finishing his six-year term today. He thanked Mr. Mortensen for his faithful service during those years. He noted he and Mr. Mortensen were in the Utah Mining Association together. During his working years, he and his family developed one of the greatest coal companies in the state. Coastal has it now, and it is the largest operating company in the state. Mr. Mortensen's wife Anora was in attendance with him.

Chairman Lee presented Mr. Mortensen with a plaque from the Board and Staff expressing their appreciation and noting his term of service. Mr. Mortensen thanked everyone for this and stated he has appreciated serving on the Board and has enjoyed serving.

Ms. Bird thanked Mr. Mortensen for serving and noted it has been an honor having him serve on this Board. The Staff and beneficiaries presented Mr. Mortensen with a framed Utah map showing the trust lands.

Meeting adjourned at 1:45 p.m.